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(Rev. 08-28-2000)

FEDERAL BUREAU OF INVESTIGATION

Precedence: ROUTINE **Date:** 11/25/2002

To: Los Angeles

From: Los Angeles
WCC-2
Contact: SA [redacted] b6 b7C b7E

Approved By: [redacted]

Drafted By: [redacted]

Case ID #: 196C-LA-227702 (Pending) -10

Title: WARNER BROTHERS;
WILLIAM BLATTY - VICTIM;
WILLIAM FRIEDKIN - VICTIM;
MF, SECURITIES FRAUD

Synopsis: Close case.

Details: This case is being closed at the direction of ADIC Ronald Iden as relayed by A/ASAC [redacted] Investigation to date has not revealed sufficient evidence to support a criminal case. Due to the re-allocation of resources to other investigative matters within the Los Angeles Field Office, and the priority of certain securities investigations on the squad, further investigation of this matter is not justified. Los Angeles recommends this matter be closed. b6 b7C

Close case C-4 Admin 12/9/02 [redacted] 11/25/02 b6 b7C

329 [redacted] 01.02

196C-LA-227702-10

LAW OFFICES OF
GREENBERG GLUSKER FIELDS CLAMAN MACHTINGER & KINSELLA LLP

[redacted]

1900 AVENUE OF THE STARS
SUITE 2100
LOS ANGELES, CALIFORNIA 90067-4590
TELEPHONE: (310) 553-3610

FAX
[redacted]

E-MAIL ADDRESS
[redacted]

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b7C

June 20, 2001

OUR FILE NUMBER
29362-00002

VIA MESSENGER

[redacted]
Federal Bureau of Investigation
11000 Wilshire Boulevard, Suite 1700
Los Angeles, California 90024

Dear [redacted]

At the request of William Friedkin, I am sending you a copy of the Complaint filed by Mr. Friedkin and Mr. Blatty against Warner Bros.

b6
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[redacted]

[redacted]
Enclosure

cc: [redacted]

2936200002-1213516.1

Bertram Fields (SBN 024199)
GREENBERG GLUSKER FIELDS CLAMAN
MACHTINGER & KINSELLA LLP
1900 Avenue of the Stars, Suite 2100
Los Angeles, California 90067-4590
Telephone: (310) 553-3610
Fax: (310) 553-0687

Attorneys for Plaintiffs
William Peter Blatty and William Friedkin

ORIGINAL FILED

MAY 22 2001

LOS ANGELES
SUPERIOR COURT

SUPERIOR COURT OF THE STATE OF CALIFORNIA

FOR THE COUNTY OF LOS ANGELES

WILLIAM PETER BLATTY and WILLIAM FRIEDKIN, Plaintiffs, vs. WARNER BROS. INC., a Delaware corporation; TURNER NETWORK TELEVISION LP, a Delaware Limited Partnership; TURNER BROADCASTING SYSTEM, INC., a Georgia corporation and DOES 1 through 20, Inclusive, Defendants.	Case No. BC250889 COMPLAINT FOR: (1) BREACH OF CONTRACT; (2) BREACH OF FIDUCIARY DUTY AND IMPOSITION OF TRUST; AND (3) AN ACCOUNTING

Plaintiffs allege as follows:

THE NATURE OF THE ACTION

1. Plaintiffs are William Peter Blatty ("Blatty") and William Friedkin ("Friedkin"). They bring this action to protect their share in the profits of "The Exorcist" (the "Film"), a critically acclaimed and highly successful motion picture they created.

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Los Angeles, CA 90067-4590

2. Since its release in 1973, the Film has become a classic, continuing to draw huge audiences and enjoying a near cult following among audiences of all ages, both domestically and abroad. During 1999, Friedkin devoted his skill and time to creating a new version of "The Exorcist." Warner Bros. Inc. ("Warner") released it in 2000, under the title "The Exorcist-The Version You've Never Seen" (the "New Version"), using the services of both Friedkin and Blatty to promote it. With a completely new audience, the revised picture was, once again, an enormous hit, both critically and financially.

3. Defendants are all related entities and part of the giant conglomerate, AOL Time Warner. They have made vast profits from plaintiffs' efforts. Yet, defendants have tried, in every possible way, to divert revenues from plaintiffs, to deprive them of the profit shares they were promised and to keep for themselves the economic benefits that should have accrued to plaintiffs.

4. To avoid paying plaintiffs their agreed shares of profits, defendants have allocated revenues away from the Film to other of defendants' pictures and have allowed their sister companies to use the Film without pay or for substantially less than the market price. In this way, revenues and values, which should have benefitted plaintiffs, remain instead within the AOL Time Warner empire, in the form of cost savings and increased profits to AOL Time Warner and its subsidiaries and affiliates, such as Turner Network Television ("TNT"), Turner Broadcasting System ("TBS") and the Arts & Entertainment Channel ("A&E").

5. This cynical manipulation by defendants constitutes a material breach of their obligations to plaintiffs, enriching the entire AOL Time Warner conglomerate at plaintiffs' expense and allowing entities that are a part of that conglomerate to receive, retain and use for their own benefit trust funds to which plaintiffs are entitled.

THE PARTIES

6. Friedkin is an individual residing in Los Angeles County. Friedkin is a well-known motion picture director. He received an Academy Award nomination as Best

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Los Angeles, CA 90067-4590

Director for the Film, and was also the director of other acclaimed films, such as "The French Connection," for which he won the Academy Award as Best Director.

7. Blatty is the author of the best-selling book upon which the Film was based. Blatty also wrote the screenplay for the Film and served as the Film's producer. He won an Academy Award for best screenplay for the Film, and the Film, as he produced it, also received an Academy Award nomination as Best Picture. Pursuant to his written agreement with Warner, Blatty is also the co-owner of the negative and copyright of the Film.

8. Each of the named defendants is an entity organized and existing under the laws of a state other than California, but is qualified to do business in and is doing business in Los Angeles County. Each is, directly or indirectly, owned and controlled by AOL Time Warner Inc. and subject to its domination and control.

9. The true names, extent of conduct and involvement, and the true capacities, whether individual, corporate or otherwise, of defendants named herein as Does 1 through 20 are presently unknown to plaintiffs, who therefore sue said defendants by such fictitious names. Plaintiffs will seek leave to amend this complaint to allege the true names and capacities of said defendants when plaintiffs have ascertained the same. On information and belief, plaintiffs allege that such fictitiously named defendants took some part in the acts and omissions alleged herein and, as a direct and proximate result thereof, incurred legal liability to plaintiffs for the relief prayed for herein.

10. On information and belief, plaintiffs allege that in doing the acts and things hereinafter alleged, each defendant acted individually for himself and itself, and as the agent, employee and representative of each of the other defendants and, in doing the things hereinafter alleged, each was at all times acting within the course and scope of said agency and employment with the advance knowledge, acquiescence or subsequent ratification of each and every other defendant.

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1900 Avenue of the Stars, Suite 2100
Los Angeles, CA 90067-4590

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MACHTINGER & KINSELLA LLP
1900 Avenue of the Stars, Suite 2100
Los Angeles, CA 90067-4590

THE AGREEMENTS

11. On or about August 25, 1971, Blatty's predecessor in interest, Hoya Productions, Inc., and Warner entered into a written production-financing-distribution agreement (the "Blatty Agreement") whereby Blatty agreed to write the screenplay for the Film and produce it with Warner. Under the Blatty Agreement, Warner granted to Blatty the right to 39% of the Net Profits of the Film (as defined in the Blatty Agreement). The Blatty Agreement also provided that, in the event Warner granted participations in net profits to any third party, the third party's portion of such profits should be borne proportionately by Warner and Blatty, but that Blatty's share of the net profits would not, in any event, be reduced below 28% of 100% of such net profits. The Blatty Agreement further provided that Blatty and Warner "will own the [Film], including the negative and copyright thereof, as tenants in common, in perpetuity." The Blatty Agreement further provided that Warner will retain the distribution rights to the Film for 25 years after its first general release, which rights could be extended for an additional 25 year period beyond expiration of the initial 25 year period. Warner's distribution rights were extended pursuant to paragraph 9(a)(ii) of the Blatty Agreement for the additional 25 year period.

12. On or about August 26, 1999, Blatty and Warner entered into a Settlement Agreement and Release with respect to various audit claims regarding home video distribution of the Film. Although the terms of this settlement are protected by a confidentiality provision, the release contained therein covers claims on accounting statements rendered by Warner through December 31, 1997. Thus, the claims Blatty asserts against Warner in the instant action are those arising after, or reflected on accounting statements rendered by Warner after, December 31, 1997.

13. On or about January 28, 1972, Friedkin's predecessor in interest, The William Friedkin Company, and defendant Warner entered into a written agreement (the "Friedkin Agreement") whereby Friedkin agreed to serve as the director of the Film.

Under the Friedkin Agreement, Warner granted to Friedkin the right to 10% of the Net Profits of the Film (as defined in the Blatty Agreement).

14. On or about June 4, 1998, Friedkin and Warner entered into a Settlement Agreement and Release with respect to various claims regarding the distribution of the Film. Although the terms of the settlement are protected by a confidentiality provision, the release therein covers claims relating to the Film reflected on accounting statements rendered by Warner through June 4, 1998. Thus, the claims Friedkin asserts against Warner in the instant action are those arising after, or reflected on accounting statements rendered by Warner after, June 4, 1998.

15. Friedkin and Blatty have done all things required of them under each of the foregoing Agreements and are in no manner or respect in breach thereof.

THE NEW VERSION

16. Friedkin and Blatty attempted for years to persuade the management of Warner to re-release the original version of the Film. Finally, Warner management agreed, and subsequent testing for the Film was enormously successful. Friedkin and Blatty worked to revise the Film in order to make the New Version highly successful. Blatty outlined an arrangement of new scenes, and Friedkin spent several months re-editing the original version of the Film to add an additional eleven minutes of footage and to re-do the sound. In addition, Friedkin and Blatty gave hours of media interviews in the United States and abroad over a period of months to promote the New Version and help to insure its success, a contribution invaluable to Warner in its distribution and marketing efforts. Neither Friedkin nor Blatty requested any guaranteed compensation for all of these efforts. Rather, they believed that their labors would be rewarded by the success of the re-release and the increase in their respective shares of the Film's profits.

17. The New Version of the Film was released on September 26, 2000 and ran in more than 2000 movie theaters across the United States. Warner distributed the New Version as if it were a new film, not a re-release. By way of example, the New Version

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of the Film was shown at first run ticket prices and in first-run theaters across the country usually reserved for newly released films.

The New Version (like the original Film) has enjoyed remarkable critical acclaim and financial success, earning approximately $40 million domestically since its release. It has already generated more than $110 million from worldwide theatrical exploitation. Meanwhile, over 262,000 video units of the original version of the Film have been sold in England over the past six months alone, reflecting the impact of the New Version upon success of the original version, both domestically and abroad.

WARNER'S WRONGFUL CONDUCT

Conduct Relating To The Original Film:

18. To avoid paying plaintiffs' their share of profits, Warner has allocated to other pictures revenues that should properly have been allocated to the Film. Acting in utter bad faith, Warner has improperly allocated to the Film unreasonably low shares of the total license fee paid by licensees where the Film is sold as part of a "package" of other Warner product. Warner has failed and refused to use good faith or any reasonable standard in allocating such license fees among the Film and other pictures in such packages. This has been particularly true in licenses to companies that are part of the AOL time Warner conglomerate. Plaintiffs discovered Warner's misconduct in this regard through an audit on or about June 2, 2000, covering the period January 1, 1997 through March 31, 1999.

For example:

a. On or about January 8, 1997, after TNT had become a sister company of Warner and a member of the AOL Time Warner empire, Warner granted TNT a license to exhibit the Film, along with 114 other pictures, for a total license fee of $18 million, or an average license fee of $156,522 per title. Warner's allocation to the Film of the total license fee was a mere $110,000, lower even than the average and the same as such films as "Cleopatra Jones," "The Incredible Mr. Limpet," and "It Lives

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Again" which were unsuccessful at the box office, had virtually no name recognition and enjoyed far less television value than the Film. In comparison, the allocation for the Film under the 1993 license had been for $350,000, which would be the equivalent of more than $500,000 today, and which, at the time, was already disproportionately low when compared to other properties included in the 1993 package, such as "The Sacketts" (a television mini-series) and "Club Paradise" (a box office failure for which Peter O'Toole was nominated for the worst supporting actor award).

b. Warner's license of the Film to its sister company, A&E, for the period May 1, 1998 through October 31, 1999, along with 55 other films yielded Warner a total license fee of $10 million. Warner only allocated $295,000 of this to the Film. That allocation was egregiously low in comparison to the other features in the same package, such as "The Dead Pool," "Greystoke: The Legend of Tarzan," and "Tom Horn" – films which plainly enjoyed far less commercial and critical success than the Film and did not have similar widespread name recognition.

c. Warner has also allocated a disproportionately low license fee for the Film in the foreign television package licenses for France (Metropole), Korea (KBS Media), Sweden (TV4 Nordisk) and Latin America (TNT Latin America).

19. In dealings with related and affiliated entities that are a part of the AOL Time Warner empire, Warner has failed to achieve fair and equitable market rates for licenses of the Film, thus enriching such entities at plaintiffs' expense.

20. Warner has failed and refused, and continues to fail and refuse, to supply essential information as to the terms of license agreements and its dealings with related and/or affiliated entities in order that plaintiffs can evaluate the fairness of such licenses.

21. Warner has also failed to properly account to plaintiffs in a number of additional respects, including but not limited to the following:

a. Warner improperly imposed a distribution fee on copyright royalties for the Film, the collection of which require minimal distribution effort;

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b. Warner overstated the distribution fee on receipts reported from A&E and TNT;

c. Warner overstated print costs;

d. Warner improperly charged plaintiffs for amounts attributable to Australian taxes;

e. Warner improperly overstated residual expenses; and

f. Warner failed and refused to provide documentation to substantiate expenses relating to the Film.

Conduct Relating To The New Version:

22. Notwithstanding the virtually unparalleled critical and commercial success of the New Version, Warner rushed to license the valuable domestic free television rights to CBS for only $1.5 million, approximately one quarter of the market rate for that license. Warner allowed CBS to pay this extremely low rate, because of CBS's arrangement with other AOL Time Warner affiliates, including TNT and TBS, under which these affiliates of AOL Time Warner received direct and indirect benefits that do not flow to them from the other major networks.

23. Warner's "excuse" for this self-enriching misconduct was the demonstrably false claim that the New Version was not easily aired by networks due to its adult content and language. But Warner had previously licensed CBS the television rights to the original Film for $10 million, the equivalent of more than $30 million today. That earlier license was contingent on Friedkin editing the Film to satisfy CBS's "standards and practices." To accomplish this, Friedkin removed approximately one and one-half minutes of controversial footage from the Film and, using his own voice, dubbed over the profanities that emanated from the Film's "demon." In addition, Friedkin reshot one scene. With these slight changes, Friedkin was easily able to satisfy CBS's "standards and practices," and the Film was broadcast by CBS, in prime time, and achieved huge ratings. There was no such difficulty as now spuriously claimed by defendants. The 11 minutes of footage that has been added to the New Version contains no image or

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language that would be an impediment to a television airing. Warner's excuse that the New Version was not appealing to network television is demonstrably false.

24. Warner has gone even beyond that in dealings with its sister entities in order to create value for the AOL Time Warner empire at plaintiffs' expense. Thus, Warner has licensed the New Version of the Film to its AOL Time Warner sister companies, TNT and TBS, for no added license fee at all, and Warner has extended these licenses for no additional consideration. Thus, the AOL Time Warner conglomerate received a valuable right without any payment at all and significantly improved its consolidated financial statements at plaintiffs' expense. Here again, defendants offered a bogus excuse. They claimed that, in the absence of such a give away, creating such a free benefit for the AOL Time Warner empire, an AOL Time Warner subsidiary, TNT, would not allow the New Version to be shown on television and would even show the old version on television, significantly impairing any theatrical release of the New Version, even though exhibition of the New Version would greatly enrich AOL Time Warner. Of course, such conduct on the part of TNT would have seriously harmed its parent, AOL Time Warner and, obviously, AOL Time Warner could easily have remedied that supposed "problem" any time it wanted by a single phone call to its wholly owned subsidiary, TNT. Instead, through its subsidiaries, AOL Time Warner enjoyed the significant economic benefit to its consolidated financial statements of exhibiting the New Version free of charge, by pretending, along with its affiliates, that, without getting that free ride, TNT would have deliberately sabotaged the plans for the New Version. Defendants did not even offer plaintiffs their share of an imputed license fee. They simply elected to further their own economic interests at plaintiffs' sole expense.

25. Warner's wrongful conduct with respect to the New Version also extends to the marketing costs it has purported to charge. For example, Warner has charged $15 million as advertising costs of the New Version, including $1.9 million paid to Warner itself for the supposed design of an advertising campaign for the New Version. This "new" design simply adopted the logo of the original version of the Film in print ads

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Los Angeles, CA 90067-4590

and added the words, "The Version You've Never Seen." Plaintiffs allege on information and belief, that a substantial part of the balance of Warner's $15 million charge for marketing costs is unjustified and spurious.

FIRST CAUSE OF ACTION

(Breach of Contract – Against Warner)

26. Plaintiffs reallege and incorporate herein by reference each and every allegation contained in paragraphs 1 through 25, inclusive, of the complaint as though set forth at length herein.

27. The conduct of Warner alleged hereinabove constitutes a material breach of the express and implied covenants of each of the foregoing agreements.

28. As a direct and proximate result of Warner's said acts of breach, plaintiffs have been damaged in an amount far in excess of the jurisdictional minimum of this Court. Plaintiffs will seek leave to amend this complaint to reflect said sum when ascertained.

SECOND CAUSE OF ACTION

(Breach of Fiduciary Duty – Against All Defendants)

29. Plaintiffs reallege and incorporate herein by reference each and every allegation contained in paragraphs 1 through 25, inclusive, of the complaint as though set forth at length herein.

30. Defendants are plaintiffs' fiduciaries by virtue of at least the following:

a. Warner and its affiliates acted as plaintiffs' agents and sub-agents with respect to collecting, receiving, accounting and paying to plaintiffs their share of revenues derived from the distribution and exploitation of the Film and the New Version.

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They owe to plaintiffs a fiduciary duty at least with respect to all aspects of those functions;

b. Plaintiffs have entrusted their valuable rights to Warner to manage and to divide the profits therefrom;

c. The information necessary to a full and fair accounting of the Film's and the New Version's profits is exclusively within the control of Warner, plaintiffs are "at the mercy" of Warner and are relegated to a position in which they have no choice but to repose their trust and confidence in Warner in determining the amount of profits received from the Film and the New Version; and

d. As to Blatty, Warner and Blatty are co-owners of the Film's negative and copyright.

31. The conduct of defendants alleged hereinabove constituted a breach of their fiduciary duties to plaintiffs.

32. As a direct and proximate result of said defendants' breaches of fiduciary duty, Friedkin and Blatty have been damaged in an amount far in excess of the jurisdictional minimum of this Court. Friedkin and Blatty will seek leave of Court to amend this complaint to reflect this amount when it has been ascertained.

33. The misconduct of defendants alleged hereinabove was willful, malicious, oppressive and fraudulent and was committed with the intent to frustrate plaintiffs' rights under the Friedkin Agreement and the Blatty Agreement. Such misconduct justifies an award of exemplary and punitive damages.

34. As a direct and proximate result of the misconduct alleged hereinabove, defendants received and hold, for their own use and benefit, funds that are equitably the property of plaintiffs. Plaintiffs are entitled to the imposition of an actual or constructive trust upon such funds and the results and proceeds thereof.

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1900 Avenue of the Stars, Suite 2100
Los Angeles, CA 90067-4590

THIRD CAUSE OF ACTION

(Accounting – Against Defendants Warner and Does 1 through 20, Inclusive)

35. Plaintiffs reallege and incorporate herein by reference each and every allegation contained in paragraphs 1 through 25, inclusive, of the complaint as though set forth at length herein.

36. Pursuant to the Friedkin Agreement and the Blatty Agreement, and by reason of the facts alleged hereinabove, defendants were obligated to provide to plaintiffs statements accurately reflecting the amount of revenues derived from the distribution and exploitation of the Film and the New Version, and remitting to plaintiffs their share of such revenues.

37. Despite demand, defendants have failed and refused. and continue to fail and refuse, to provide plaintiffs with proper and accurate accountings reflecting the amount of revenues derived from the distribution and exploitation of the film.

38. An accounting is required to determine the true amount of revenues derived from the distribution and exploitation of the Film and the New Version in order to ascertain plaintiffs' share of such revenues.

WHEREFORE, plaintiffs pray judgment as follows:

1. For actual and compensatory damages in an amount to be determined at trial and for interest thereon at the highest lawful rate;

2. For the imposition of an actual or constructive trust for the benefit of plaintiffs upon all funds, assets, revenues and profits defendants have improperly received from the distribution and exploitation of the Film and the New Version and upon the results and proceeds thereof;

3. For punitive damages;

4. For costs of suit herein incurred;

5. For reasonable attorneys' fees; and

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6. For such other and further relief as this Court may deem just and proper.

DATED: May 22, 2001

GREENBERG GLUSKER FIELDS CLAMAN MACHTINGER & KINSELLA LLP

By _____
BERTRAM FIELDS
Attorneys for Plaintiffs William Peter Blatty and William Friedkin

GREENBERG GLUSKER FIELDS CLAMAN MACHTINGER & KINSELLA LLP
1900 Avenue of the Stars, Suite 2100
Los Angeles, CA 90067-4590

FD-340a (Rev. 11-12-89)

(Title) Warner Bros.

(File No.) 196C-LA-227702

Item	Date Filed	To be returned Yes	To be returned No		Disposition
1A1	1/24/02		✓	orig notebk: Wm Friedkin AT	
1A2	1/24/02		✓	orig notebk: Wm Reto. Blatt AT	
3	4-19-02		✓	Notes re: [redacted] -cs	
4	10/10/03		X	Notes: re: [redacted]	
5	10-8-02		✓	Notes re: [redacted] cs	
6	9/11/09		✓	One FD-192 of 1A1 [redacted]	

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196C-LA-227702-14

FD-340b (Rev. 2-5-93)

-1A1

Universal Case File Number 196C-LA-227702

Field Office Acquiring Evidence LA

Serial # of Originating Document 2

Date Received 09/07/01

From WILLIAM FRIEDKIN
(Name of Contributor)

(Address of Contributor)

(City and State)

By SA [redacted]
(Name of Special Agent)

b6
b7C

To Be Returned ☐ Yes ☒ No

Receipt Given ☐ Yes ☒ No

Grand Jury Material - Disseminate Only Pursuant to Rule 6 (e), Federal Rules of Criminal Procedure

☐ Yes ☒ No

Title:

WARNER BROTHERS

Reference:
(Communication Enclosing Material)

Description: ☒ Original notes re interview of

WILLIAM FRIEDKIN

FD-340b (Rev. 2-5-93)

1A2

Universal Case File Number 196C-LA-227702

Field Office Acquiring Evidence _____

Serial # of Originating Document _____

Date Received 9-10-01

From Wm Peter Blatty
(Name of Contributor)

(Address of Contributor)

By _____

b6
b7C

To Be Returned ☐ Yes ☐ No

Receipt Given ☐ Yes ☐ No

Grand Jury Material - Disseminate Only Pursuant to Rule 6 (e), Federal Rules of Criminal Procedure

☐ Yes ☐ No

Title:

Warner Bros

Reference: _____
(Communication Enclosing Material)

Description: ☒ Original notes re interview of

William Peter Blatty

FD-340 (Rev. 8-7-97)

Universal Case File Number 196C-LA-227702-1A3

Field Office Acquiring Evidence _____

Serial # of Originating Document 5

Date Received 3/20/2002

From [redacted]
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(Address of Contributor)

Burbank, CA
(City and State)

By SA [redacted]
(Name of Special Agent)

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To Be Returned ☐ Yes ☒ No
Receipt Given ☐ Yes ☒ No
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☐ Yes ☒ No

Title: WARNER BROS. ETAL

Reference: _____
(Communication Enclosing Material)

Description: ☒ Original notes re interview of

[redacted]

4/19/02

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FD-340 (Rev. 8-7-97)

Universal Case File Number 196C-LA-227702-1A5

Field Office Acquiring Evidence LA

Serial # of Originating Document 9

Date Received 2/26/2002

From [redacted] b6 b7C
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(City and State)

By _____
(Name of Special Agent)

To Be Returned ☐ Yes ☒ No
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Federal Rules of Criminal Procedure
☐ Yes ☒ No

Title:

WARNER BROTHERS

Reference: _____
(Communication Enclosing Material)

Description: ☒ Original notes re interview of [redacted] b6 b7C

10-8-02
CS

[redacted]

Title and Character of Case:

WARNER BROS INC
BLATTY, WILLIAM, PETER

Date Property Acquired: Source from which Property Acquired:

01/10/2002 [redacted] b3 b6 b7C

Anticipated Disposition: Acquired By: [redacted] Case Agent: [redacted]

Description of Property: Date Entered
1C 1

[redacted]

Barcode: Location: 03/06/2002
Grand Jury Material (Disseminate only pursuant to Rule 6(e))

b6 b7C

destroyed
Per ECAU #11
by [redacted]

Case Number: 196C-LA-227702
Owning Office: LOS ANGELES

Title and Character of Case:

WARNER BROS INC
BLATTY, WILLIAM, PETER

Date Property Acquired: Source from which Property Acquired:

01/10/2002 [redacted]

b3
b6
b7C

Anticipated Disposition: Acquired By: [redacted] Case Agent: [redacted]

Description of Property: Date Entered
1C 1

[redacted]

Barcode: Location: ECR2 03/06/2002
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Case Number: 196C-LA-227702
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FEDERAL BUREAU OF INVESTIGATION

Date of transcription 09/07/2001

WILLIAM FRIEDKIN, date of birth 08/1939, social security account number [redacted], of 10451 Bellagio Road, Los Angeles, California 90077, President of WILLIAM FRIEDKIN PRODUCTIONS, 5555 Melrose Avenue, Dressing Room Building, Suite 227, Hollywood, California, telephone number (323) 956-8140, was interviewed at his place of residence. After being advised of the identities of the interviewing agents and the purpose of the interview, FRIEDKIN provided the following information: b6 b7C

FRIEDKIN is an established motion picture director. In approximately 1972, FRIEDKIN directed a movie titled "The Exorcist" ("Exorcist" or the "Film"). WILLIAM PETER BLATTY wrote both the novel and the screenplay for The Exorcist. The Film was made by WARNER BROTHERS ("WB"). The Exorcist was a financial and critical success. The film's popularity has endured to the present day.

In late 1998, the original Exorcist film was re-released to great success in England. WB had been adverse to the idea of re-releasing the film because re-releases typically do not do well in the theaters. In fact, the re-release of Exorcist in England made millions of dollars for WB and turned out to be the second most successful re-release in history, after the re-release of STAR WARS.

In light of the successful re-release of the film in England, BLATTY and FRIEDKIN finally managed to convince WB to commit to a re-mastered new release of an updated version of the Film (Film2). Based on discussions with WB executives, FRIEDKIN developed the new version of the Film, adding a total of eleven to twelve minutes of film footage, including a different ending, and creating a completely new soundtrack with new music. FRIEDKIN neither sought nor received compensation for his efforts in re-mastering the original version, because he believed that he would profit handsomely from the revenue generated by the new release.

The new version of the Film was released in the year 2000. WB distributed the Film2 as a completely new film, not a re-release. WB premiered the Film2 at first run theaters and charged

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full-price for admission. Like the original, the new release met with financial and critical success. According to publicly released box office figures, the re-mastered film has earned $40 million in domestic box office revenue and $77 million in foreign box office revenue, for a total box office of $118 million worldwide. This figure does not include revenue from other sources, such as video and DVD sales, and secondary sales to airlines and other outlets. In contrast to the large revenues that have been generated by the new release, the Film2 cost virtually nothing to make. WB has stated publicly in various sources it cost only $800,000 to make the re-mastered version of the Film. FRIEDKIN believes that the Exorcist is WB's most profitable film of the last ten (10) years. Despite the appearance of enormous profits, and despite the fact that they are entitled by contract to share in the profits of the Film2, FRIEDKIN and BLATTY have not shared in any of the Film2's profits.

Under the terms of BLATTY's and FRIEDKIN's contracts, both individuals were entitled to share in a portion of the profits generated by the Film2. FRIEDKIN is entitled to 10% of the total revenue of the film less expenses and a percentage of distribution costs. Expenses are calculated on an actual cost basis, while the distribution costs were established by contract as 15% of the total revenue generated by the film. Thus, FRIEDKIN's share of the profits should be calculated according to the following formula:

10%(Total Revenue - 15%(Total Revenue) - Expenses)

According to the figures above, this would entitle FRIEDKIN to approximately $10 million (10%($118 Million - (15%($118 Million)) - $800,000)).

In addition to owning fifty (50) percent of the negative of the Exorcist (i.e., ownership of the Film itself), which presumably would give BLATTY the right to decide what WB does with it, BLATTY also negotiated a profit participation agreement that entitles him to an even larger profit share than that of FRIEDKIN. Under BLATTY's agreement, BLATTY's profit sharing agreement entitles him to receive approximately thirty (30) percent of the total revenue of the film less the cost of distribution and expenses. In BLATTY's case, distribution costs were preset at 30% of the total revenue generated by the film. BLATTY's share of the

profits can be calculated as follows:

30%(Total Revenue - 30%(Total Revenue) - Expenses)

According to the published figures, BLATTY's profit participation should amount to approximately $21 million.

FRIEDKIN first discovered problems with WB's accounting on the Film when he began reviewing the "top sheets" that WB was providing on the Film. Top sheets are periodic statements that break down the revenues and expenses that attach to a film project. In the case of the Exorcist films, the top sheets provide information relating to the most recent three (3) months and to the cumulative total amounts that date back to the original release. When FRIEDKIN reviewed the top sheets it became obvious to him that WB had drastically inflated the expenses associated with the movies. For instance, despite the representation contained on Top Sheet No. 49, there is no conceivable way that WB could have spent a cumulative total of $40 million on advertising and publicity for the two (2) films.

These problems led FRIEDKIN to open a dialogue with BLATTY. Eventually, FRIEDKIN and BLATTY compared top sheets and determined that WB was providing them with different revenue and expense figures for the same movie. Moreover, the discrepancies seemed to be random, with some expenses being higher for BLATTY and others being higher for FRIEDKIN. On balance, however, the expenses were higher for BLATTY. FRIEDKIN suspects that this is a result of the fact that BLATTY's profit participation agreement is higher than FRIEDKIN's agreement.

FRIEDKIN has a complete set of his own top sheets and as many as seven or eight top sheets for BLATTY. FRIEDKIN is willing to provide all documentation to interviewing agents, but requests that it be done via a subpoena in order to protect FRIEDKIN from violating the terms of his confidentiality agreement with WB.

After FRIEDKIN and BLATTY determined that WB was preparing two (2) different sets of top sheets, BLATTY contacted [redacted] an accountant at WB, and asked [redacted] for an explanation. [redacted] contacted BLATTY a short time later to explain that WB had understated its domestic revenue by $8 million. [redacted] promised to rectify the error in the next cost statement. b6 b7C

When FRIEDKIN received the next top sheet, however, he discovered that WB had made an $8 million adjustment, but the adjustment had been made to the foreign revenue figure, rather than to the domestic revenue figure. FRIEDKIN concluded that WB must be making the numbers up as they go along. FRIEDKIN cannot believe that WB is continuing to manipulate the figures and that it is doing so in such blatant disregard of accepted accounting principles.

In addition to the manipulation in the accounting reports, FRIEDKIN has also discovered that WB is engaging in improper self-dealing in order to further defraud BLATTY and himself. Specifically, FRIEDKIN is convinced that WB sold television rights for the Film to other AOL TIME WARNER subsidiaries at below market prices. The most blatant example of this self-dealing is the fact that WB gave the cable television rights to the Film2 to TURNER NETWORK TELEVISION (TNT) free of charge. WB claims that it had to give away the rights to the Film2, because TNT already had the rights to the original film and this was the only way to prevent TNT from rendering the cable television premiere of the Film worthless by playing the original Film at the same time. FRIEDKIN later determined that this was a false claim because AOL, as TNT's parent company, could have dictated TNT's schedule. More importantly, FRIEDKIN also discovered that TNT's rights to the original Film were going to expire well before the Film2 would have been premiered. FRIEDKIN also learned that WB sold the network television rights to CBS for $1.5 million even though NBC was willing to pay a significantly higher amount.

The television rights were negotiated with [redacted] (phonetic). [redacted] has since retired from WB and is now living in [redacted] was actually retired at the time that the rights to the re-mastered Exorcist were negotiated, but he was brought back in order to serve as [redacted] for the self dealing with AOL subsidiaries. After the subsidiary deals were done, [redacted] approached [redacted] at a movie premiere in New York and apologized to her for what he and WB had done to FRIEDKIN. [redacted] said that "we did a terrible thing to [FRIEDKIN]" and promised to make it up to him. [redacted] did not have any idea what [redacted] was talking about. [redacted] PARAMOUNT PICTURES. b6 b7C

FRIEDKIN also contacted [redacted] WB, and explained all of his complaints to [redacted] At that time, [redacted] told FRIEDKIN that it was not possible that WB would give the cable b6 b7C

rights to TNT free of charge. [redacted] said that he would look into the complaints and get back to FRIEDKIN. [redacted] eventually contacted FRIEDKIN and asked FRIEDKIN to meet with another WB employee named [redacted] who would explain what had happened. FRIEDKIN rejected the offer and told [redacted] that he only would only listen to [redacted] at [redacted] deposition. b6 b7C

FRIEDKIN eventually hired attorney [redacted] to represent him and BLATTY in an action against WB. [redacted] told FRIEDKIN that he was aware from another one of his cases that WB's [redacted] was under intense pressure from AOL TIME WARNER to improve WB's profitability. [redacted] was on notice that he would be fired if he did not improve the studio's bottom line. This mandate was delivered to all division heads at the time of the merger between AOL and TIME WARNER. FRIEDKIN believes that [redacted] attempted to improve that bottom line by keeping the monies that rightly should have been paid to FRIEDKIN and BLATTY by virtue of their profit participation agreements. b6 b7C

At around the time that FRIEDKIN and BLATTY filed their civil complaint against WB, WB broke off contract negotiations with FRIEDKIN over his compensation for the Film2. FRIEDKIN and WB had completed all substantive negotiations for the Film2 at the time that WB broke off the negotiations. The only outstanding issue at the time was whether WB would agree to a clause requiring WB to deal in good faith with respect to possible self-dealings between WB and other AOL subsidiaries. After WB refused to continue negotiations, FRIEDKIN amended his civil complaint to add a claim under the Lanham Act.

After WB broke off negotiations on the contracts for the new Film, WB reverted back to the terms of the contracts that BLATTY and FRIEDKIN entered into for the original EXORCIST film in 1972. WB sent FRIEDKIN a $40,000 check based on the old contract, but FRIEDKIN returned the check.

FRIEDKIN is aware that another WB employee, [redacted] has been contacting BLATTY in an attempt to convince BLATTY that there is an innocent explanation for BLATTY's and FRIEDKIN's complaints. Recently, [redacted] offered BLATTY $1.7 million to drop the case. [redacted] has called BLATTY several times. b6 b7C

FRIEDKIN believes that the accounting misstatements and the self-dealing may constitute violations of federal criminal law. FRIEDKIN believes that [redacted] b6 b7C

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(phonetic), are the WB employees who have the most knowledge about the fraud. [redacted] is [redacted] immediate supervisor.

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 9/10/2001

William Peter Blatty, date of birth January 7, 1928, of 7018 Longwood Drive, Bethesda, Maryland, telephone number [redacted] was interviewed. After being advised of the identity of the interviewing agents and the nature of the interview, Blatty provided the following information: b6 b7C

Blatty had provided to Bill Friedkin approximately seven of his quarterly accounting statements for the films "The Exorcist" and "Exorcist, The Version You've Never Seen," which he received from Warner Brothers. Blatty was concerned because he had discovered after speaking to Friedkin that the accounting statements he and Friedkin received for the same films were different. Blatty and Friedkin thought that Warner Brothers may be trying to defraud them of money they were entitled to for their participation in the films.

Blatty pointed out that Friedkin had arranged a side deal with Warner Brothers for the new version of the film in the early part of 2000 that affected the way distribution fees would be calculated on his statements. Blatty said that this would only account for differences in the distribution section of the statements, and should not effect the income or expense numbers. Warner Brothers told Blatty that the two versions of the movie had been segregated on Friedkin's statements, but not on Blatty's. Blatty said that Friedkin did not begin receiving segregated statements from Warner Brothers until after Blatty started asking questions of Warner Brothers. Blatty's point of contact in the accounting department at Warner Brothers was [redacted] b6 b7C

After receiving his December 31, 2000 statement, Blatty called [redacted] to ask why an expense for $15 million was listed for the theatrical release of the film. Blatty remembered he had been told by [redacted] assistant, that there would be a $16 million expense if the new version of the film was released to 2500 theaters, but a much smaller expense would be incurred if the film was only released to 600 theaters. What prompted Blatty to call was an article he read where [redacted] of Warner Brothers, said that Warner Brothers had only spent $15 million total on all expenses for the new version. [redacted] had b6 b7C

Investigation on 09/10/2001 at Los Angeles, California (telephonically)

File # 196C-LA-227702 Date dictated

by SA [redacted] b6 b7C

SA [redacted]

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said that the negative cost, or the cost to cut the film, was $800,000. Then, on the March 31, 2001 statement, $8 million had been subtracted from the foreign theatrical category. Blatty called [redacted] to ask why and [redacted] told him that he had been double charged for domestic theatrical on the previous statement. Blatty asked why the amount had been subtracted from foreign theatrical and [redacted] said it was a mistake. b6 b7C

Blatty had a good relationship historically with [redacted] had helped Blatty with statement and contract problems in the past. Blatty said [redacted] attitude changed a little bit though when Blatty told him that Blatty and Freidkin had been exchanging statements. [redacted] response was "Oh." Then in early March, 2001, there was a second call between Blatty and [redacted] told Blatty that the ad campaign for the movie had cost $1.9 million. This bothered Blatty because he had helped work on the ad campaign and helped design the trailer for the new version, and Blatty did not think the expenses were nearly that much. b6 b7C

On June 2, 2000, Blatty and Friedkin had an audit run on the accounting for the original version of the Exorcist. The audit found that Warner Brothers was charging more money to other media outlets for other, less popular movies than they were charging for the Exorcist. The audit also found that money that was coming in to Warner Brothers for the Exorcist was being credited to other films. The smaller companies who were getting the money always belonged to the larger AOL Time Warner.

Friedkin had told Blatty that on October 13, 1999, [redacted] of Warner Brothers sold the new version to CBS for $1.5 million. This was after Warner Brothers had rebuffed an offer from NBC for $2 million. Friedkin said that [redacted] had apologized several times to [redacted] at a party for what Warner Brothers had done to Friedkin. [redacted] of Paramount Studios. [redacted] told Friedkin that the new version cable license was given to TBS and TNT for nothing. b6 b7C

In July 1999, TNT and TBS held the rights to the old version of the movie. [redacted] knew that there needed to be a window before the release of the new version in the fall where the old version was not shown on cable. This way, there would be more interest in going to the theater to see the new version. [redacted] said that Warner Brothers decided to give the license for the new version to TNT and TBS for free in exchange for not showing the old version close to the release date of the new version. Blatty said b6 b7C

that in reality, [redacted] did not have to give TNT or TBS anything because their license as it was would run out a couple weeks before the release of the new movie. Moreover, since AOL Time Warner was the parent company of all the parties involved, AOL Time Warner could have instructed TNT and TBS not to show the film for a particular time period. All [redacted] needed to do was nothing. Blatty believed that the new version cable rights should have sold for $20 million to $30 million and that the reason [redacted] gave it away free was because TNT was a subsidiary of Warner Brothers. Blatty described this as vertical integration at it's worst. b6 b7C

[redacted] next call to Blatty, in approximately the summer of 2001 consisted of an offer to settle Blatty's claims with Warner Brothers for $1.7 million, which Blatty later found out was the exact value of Friedkin's side deal. Blatty then found out that Warner Brothers had reneged on it's deal with Friedkin. Warner Brothers had tried to take the money away from Friedkin and give it to Blatty. When Blatty refused the deal, [redacted] said that they would just have to wait until the discovery phase of their case to see if either one of them would be persuaded to see the other's point of view. Blatty said that he would accept a deal if the total distribution fee was reduced to $15 million and he received 25 percent of the gross after break even. Blatty said that would amount to approximately $3 million. b6 b7C

Blatty's deal for the new version was the same as for the original version in that he would receive 30.1 percent of the profits plus a straight ten percent of the video sales. Blatty estimated that according to his contract his cut should have been approximately ($52 million - expenses) x .3. This was based on approximately $52 million coming to Warner Brothers after release and distribution of the new version. Blatty said that the domestic box office was approximately $39 million and the foreign box office was approximately $77.5 million for a total of $118 million. Blatty said that the worldwide average of rental income spent on advertising was 54 percent, but Warner Brothers had claimed 87 percent in Japan.

Blatty had been receiving regular checks from Warner Brothers for the old version of the film up until the new version was released. Then, instead of the checks getting larger, they went away.

The new version of the Exorcist was test shown in early March 2000. It was released to theaters in September 2000. It was out of release by Thanksgiving 2000.

Blatty described [redacted] boss, [redacted] as an evil genius. He was a nice guy, but definitely a company man. b6 b7C

[redacted] home telephone number was [redacted] He was approximately [redacted] and had been with Warner Brothers for approximately [redacted]

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196C-LA-227702 [redacted]

196C-LA-227702-4

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 03/26/2002

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Warner Brothers (WB), telephone number [redacted] was interviewed at Warner Brothers Studios. Also present at the interview were [redacted] attorney, representing Warner Brothers and Warner Brothers [redacted] After being advised of the identities of the interviewing agents and the nature of the interview, [redacted] provided the following information:

[redacted] began working for WB in [redacted]. For his first three years there he worked doing financial work in the finance department. In [redacted] he moved to the [redacted] Department and eventually assumed responsibilities for the department. At the time of this interview, [redacted] still oversaw those two areas, in addition to two new areas, contract rights and system administration. [redacted] oversaw the daily activities of approximately [redacted] employees. Underneath [redacted] were two directors, for the residuals and contract rights departments, and one [redacted] for the participation department. [redacted] was the [redacted] the participation department. The accounting for the various profit participants' contract were calculated depending upon the particular agreement, usually every quarter, six months or annually. b6 b7C

[redacted] explained that a film usually generates most of it's income early in it's life cycle, so reporting residuals or participations is more frequent early on (i.e. quarterly). As time passes, the reporting becomes less frequent, for example, yearly. b6 b7C

The motion picture, The Exorcist, was a consistent seller for Warner Brothers over the years. The reports for participants in The Exorcist had become less frequent, but were re-instituted to be more frequent within the last couple years. This was due to the movie being re-edited, re-released theatrically and then re-distributed into supplemental markets. After the second release of the movie in 2000, Warner Brothers began to issue statements to the participants quarterly.

Investigation on 03/20/2002 at Los Angeles, California

File # 196C-LA-227702 -5 Date dictated

by SA [redacted] b6 b7C

SA [redacted]

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In the cases of reporting for William Blatty and William Friedkin, their contracts dictated which items could be included in gross revenue, and which items could be included in expenses. The contracts articulate which costs were allowed to be deducted and provided a framework for applying various other parameters. Generally speaking, gross revenue equaled the amount of money received by WB for a particular project minus the distribution fees which were agreed upon, scaled percentages. Both Friedkin and Blatty had net profit deals with WB. [redacted] said that the actual distribution fees were not relevant because the calculation of distribution costs were mathematical equations set forth in their contracts. b6 b7C

Expenses were generally actual costs incurred by WB. [redacted] said that the expenses for The Exorcist have been audited at least three times by auditors hired by Friedkin and Blatty. The last audit was a couple of years ago. [redacted] did not believe that Friedkin and Blatty had a dispute with WB concerning expenses, since their auditors had reviewed them three times and had not found significant problems. b6 b7C

[redacted] went over the auditors' findings for the most recent audit of the Exorcist. The first three findings all related to disputes concerning allocations to the film in license fee agreements. They included license agreements with Turner Broadcasting, Arts and Entertainment (A&E) and Foreign free TV.

[redacted] explained that based upon his experience over the years, packages of licenses to show films were sold to customers not based upon a price for the package as a whole, but based upon adding up the individual prices of all of the elements that made up the package. In other words, each film had a particular value assigned by WB. A customer would prepare a list of all of the films they were interested in acquiring licenses for, and then the prices of each would be added up to arrive at a total. The price of the package was not agreed upon up front, with a value from the total being applied to each individual film later. [redacted] said that license fee agreements for the Exorcist made up the bulk of Friedkin and Blatty's complaint against WB, and that Friedkin and Blatty had made that clear in settlement discussions. [redacted] added that audits on behalf of participants always find that the client was underpaid, never overpaid. The sales department negotiates the license fee agreements with the customers. b6 b7C

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[redacted] added that in the case of the license agreement with Turner, Turner had paid $55,000 per month for a two month agreement in approximately 2000 for a total of $110,000. The amount paid by Turner for a previous agreement worked out to approximately $19,000 per month, far less than the $55,000. [redacted] said that in the case of the 1999 agreement with Turner, which was $450,000 for 19 months, WB needed to persuade Turner to give them a twelve month window, during which Turner would not show the Exorcist so that the new version could be released theatrically without any competition from the original film playing on free TV. Turner agreed to grant WB a series of short windows, which totaled approximately 12 months, during which they did not show the original film. At the end of that period, and because Turner had continued to pay WB for its license, WB agreed that Turner could show the new version of The Exorcist, as well as the old version, for the remainder of the license period at no additional cost. [redacted] said that no money had been received by WB from Turner for the new version.

[redacted] said that as far as he knew, WB had only been sued three times in the last 22 years over accounting disparities related to films. Law suits did not happen often, because usually both parties were able to reach an agreement and settle the dispute. In the case involving Friedkin and Blatty, after their last audit report was issued, WB entered settlement talks with them. At one point during the negotiations, [redacted] told [redacted] that it would take $1,000,000 to make the claim go away. [redacted] said that at that point he felt like he was being extorted. He had a duty to the AOL Time Warner shareholders to settle the dispute fairly, and that their claim was worth nowhere near $1 million. b6 b7C

In response to the fourth claim in the audit report, which involved monies received from copyright tribunal, [redacted] said that the audit firm makes that same claim in every instance, and that it is wrong in every instance. The issue involves copyright royalties, an issue that was not mandated until the mid 1980's, far after Friedkin and Blatty signed their contracts for the Exorcist. [redacted] said that if you were to take out the issues involving allocations to the film in license fee agreements then all the other findings were really trivial and did not amount to much. b6 b7C

[redacted] added that prior to the release of the new version, Friedkin negotiated a better deal with WB than he b6 b7C

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originally had. Blatty did not negotiate any new deal. During the negotiations with Friedkin for the new contract, [redacted] office began to demand things on behalf of Friedkin that WB could not agree to. These demands included giving Friedkin or his representatives the right to look at the accounting records of all other films that were included in packages of films that were sold which included the Exorcist. At that point, the negotiations entered a stalemate and both parties refused to sign.

When it became clear that Friedkin would not agree to the new contract without the clause relating to the other films' books and records, and WB would not allow that language into the new contract, WB returned to the terms of the old contract to determine Friedkin's compensation for the new release. Up to that point, in anticipation of a new contract being signed, WB had broken out the accounting records for the old and new versions on two separate statements for Friedkin. One cover sheet represented the old version and old contract, and the other represented the new version and new contract. When negotiations for the new contract ceased, WB issued a revised statement to Friedkin which represented combined accounting for both versions. This re-issued statement closely matched those issued to Blatty, which also contained accounting for both versions. The benefit to Friedkin of the new deal would have been that it was a gross deal after break even, minus fees, versus the net-profit deal he already had. [redacted] said that Friedkin had not yet made money on the new calculation when it resorted back to the old calculation. During the time when Friedkin began negotiating his new deal with WB, Friedkin lied to Blatty by denying that he had negotiated a new deal for himself. When Blatty confronted [redacted] about Friedkin's calculations on the new film, [redacted] told him to ask Friedkin because it would be improper for him to discuss one participants deal with another participant.

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[redacted] described the spectrum of participation deals. On one end of the spectrum would be gross deals. Gross deals were simple calculations of a certain percentage of the gross receipts of a film. Gross deals, by their nature, generated more money for the participant. [redacted] advised that net-profit deals were at the other end of the spectrum. Friedkin's new deal was a better calculation on the spectrum then a net-profit deal.

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[redacted] said that the new version of The Exorcist was not a new film, but a different version of the same film. The two movies were very similar to each other, with the new version having

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a few minutes of additional footage that were not available on the old version and editing to the sound. [redacted] advised that there were several versions of the film made over the years for various reasons such as time constraints or edits to certain content.

[redacted] said that the reason that foreign TV revenue was approximately $152,000 lower on the June 2001 statements than on the December 2000 statements was mostly accounted for because the revenue from Spain went down by $200,000 during that period. This was most likely attributed to the Spain contract being cancelled for some reason, possibly a dispute with the Catholic Church in Spain. b6 b7C

[redacted] said that approximately $2.7 million in revenue from France was entered into the system as revenue for the old version instead of the new version because of a data entry error. [redacted] said that each film has a unique number assigned to it for accounting purposes. When the employee in France entered revenue for the new version, they inadvertently entered it under the old version's unique number. When this mistake was brought to [redacted] attention, he researched what had happened and corrected the problem. [redacted] said that the mistake was understandable, since the employee probably just saw the money as revenue for the Exorcist. b6 b7C

[redacted] said that [redacted] replacement at WB, [redacted], would be the person to talk to about [redacted] since he would know the details better than [redacted] did say that in the case of the sale of the license agreement for the new version to CBS, he believed CBS was the highest bidder. The film was offered to all of the networks, and only HBO and CBS showed any interest in it. HBO offered $1 million and CBS offered $1.5 million for a one time showing. WB believed that CBS wanted to show the film on Halloween night, which they never did, and the contract expired. Internal memos which document this claim have been offered to [redacted] There was currently no network contract for the new version. [redacted] clarified that he and his department "report the news." They don't make the news. This meant that the information that his department relied upon was entered by other WB departments. b6 b7C

Referring to the issue of vertical integration in the industry, [redacted] said that agreements signed with participants today were not significantly different than those signed five or ten years ago. The contracts do however contain clauses that say b6 b7C

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that WB would deal with related parties at arms length. The new agreement that was never completed with Friedkin contained this type of language. [redacted] said that WB had an obligation to deal with related parties fairly. He said that both WB and their related parties did business with each other and with unrelated parties on a regular basis. There were lots of examples of license agreements with both related and unrelated parties to compare to show that WB did not give better deals to related parties. [redacted] added that HBO, which is a related party, is usually the toughest client for WB to deal with. b6 b7C

[redacted] is paid a salary and a bonus by WB. [redacted] is not given goals or incentives, and his bonus is not calculated based upon his achieving any particular financial goals with respect to residuals and participations. [redacted] said that his boss would know how his bonus is calculated. b6 b7C

[redacted] said that it is in the best interest of WB to maintain a good relationship with it's participants, and to treat them fairly. WB may want to do projects with the same people in the future. b6 b7C

At any given time, there are approximately 125 to 150 audits of films ongoing by companies representing participants. [redacted] personally negotiates settlements for the company when discrepancies are found. [redacted] said that for decisions, when it could go either way, he tended to err on the side of the company. b6 b7C

[redacted] said that it costs a lot more money to advertise a film today than it did 30 years ago. The percentage of cost to revenue was much better in the 1970's than it is today. [redacted] said that he has never been found to have fabricated any expenses and that to the best of his knowledge, the same is true for WB. b6 b7C

When disputes arise between WB and participants, the calls usually come into [redacted] either researches the matter himself or he assigns people to do the research. [redacted] then responds accordingly to the dispute, and corrects the mistake if WB was found to be at fault. b6 b7C

(Rev. 08-28-2000)

FEDERAL BUREAU OF INVESTIGATION

Precedence: PRIORITY **Date:** 05/30/2002

To: New York

From: Los Angeles
WCC-4
Contact: A-SSA [redacted]

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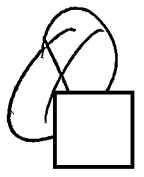
Approved By: [redacted]

Drafted By: [redacted]



Case ID #: 196C-LA-227702 (Pending)-6

Title: UNSUBS;
dba AOL TIME WARNER;
BILL FRIEDKIN, BILL BLATTY-VICTIMS
MF; OO:LA

Synopsis: Lead for NY to conduct interview.

Details: LA is investigating Warner Brothers Studios (WB) to determine whether Bill Blatty and Bill Friedkin, the writer and director, respectively, of the movies "The Exorcist" and "The Exorcist: The Version You've Never Seen" (the MOVIES) were defrauded by WB concerning their profit participation in the movies. Friedkin and Blatty have claimed that WB defrauded them in several ways. Those included issuing differing accounting statements (aka Top Sheets) to Friedkin and Blatty, citing different amounts of money received by WB and different expenses paid by WB.

Friedkin and Blatty also claimed that they were defrauded when WB sold the Network television rights to the new version to CBS for $1.5 million, after NBC had offered $2 million. Friedkin and Blatty said that WB gave the cable rights to the new version to TNT, a related entity, for free. WB contends that they had to give the film to TNT because they had the rights to the old film at the time when the new film came out in the theaters. In exchange for TNT not airing the old version at the same time they gave them the right to the new film for free.

Friedkin and Blatty said that this was unnecessary due to the fact that TNT's license was due to run out for the old version prior to the release of the new version. Friedkin and Blatty stated that in their view, the new version should have been sold to TNT for between $20 million and $30 million, and

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[redacted]

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that the reason it was given for free was because TNT was a subsidiary of WB.

Friedkin and Blatty also allege that WB did not allocate enough money to the MOVIES when they sold them as part of multiple film packages.

Friedkin and Blatty also say that there have been several mistakes, which they believe were deliberate, in the accounting for income and expenses of the MOVIES. They contend that this was deliberately done to cause them to lose residual money rightfully owed to them. These include $2.7 million in revenue from France being added to income for the old version when it belonged to the new version. They also include foreign TV income going down from one statement to the next when it should have gone up.

Friedkin and Blatty have filed a civil lawsuit in federal court against WB alleging many of the complaints noted above. Blatty told interviewing agents that WB had offered to settle with him for $1.7 million, but that he thought approximately $3 million would be a more fair number. Blatty's deal as writer of the MOVIES was a net deal for 30%. Friedkin's deal was a net deal for 10%.

[redacted] was [redacted] for WB during the time period in question. LA is requesting that NY interview [redacted] to determine his knowledge of the details regarding the transactions noted above. b6 b7C

Additionally, [redacted] saw [redacted] at an industry function and made apologetic statements to her regarding these transactions and WB's intent to defraud Friedkin and Blatty out of their earnings. [redacted] b6 b7C

Specific questions for [redacted] should include the following: b6 b7C

1) Time of employment at either Time Warner or Warner Bros

2) Job title, responsibilities, and supervisory chain of command.

3) During the relevant time period, the people that were supervised by [redacted] their titles and responsibilities.

4) The details regarding the bidding for the network rights to the revised Exorcist film. Who bid for the movie and what amounts of money did they offer? Was CBS the highest at $1.5 million or was there a bid from NBC for $2 million?

5) The details regarding the negotiations with TNT for the cable TV rights to the new Exorcist film. What was [redacted] involvement? What was the value of the new film for a cable TV? Why was the movie given to TNT for no additional license fee? Was it given to TNT without a fee because they are related companies? b6 b7C

6) Did [redacted] know at the time that such deals would deprive Friedkin and Blatty of their rightful share of the movie's earnings? Did he ever discuss, with anyone, that Warner Bros. was acting in bad faith and being dishonest with Friedkin and Blatty? If so, who did he have the discussions with? b6 b7C

7) During the relevant time period, were there discussions at Warner Bros. about lowering the amount of monies that were being paid in residuals? If so, what was the nature of those discussions and what actions were being taken to decrease the amounts owed to residual participants in Warner Bros. films?

8) Since TNT did not pay for the new film, was there any quid pro quo to Warner Bros. for giving them the film rights? If so, what did Warner Bros. receive?

9) How were the per-film prices derived for group license fee agreements? Was there a deliberate method to allocate fees to each film so as to limit, or negate the need to pay profit participants in the film?

10) Were there any bonuses paid to executives at Warner Bros. based on improving earnings by decreasing the amounts paid to profit participants?

11) Please obtain general personal information and educational background from [redacted] and ask if he would be willing to testify in a criminal case. b6 b7C

LEAD(s):

Set Lead 1:

NEW YORK

AT NEW YORK

Interview [redacted] New York, NY, telephone number [redacted] Use the background and list of questions above to facilitate the interview. b6 b7C

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(Rev. 08-28-2000)

FEDERAL BUREAU OF INVESTIGATION

Precedence: ROUTINE **Date:** 07/05/2002

To: Los Angeles **Attn:** A/SSA [redacted] b6 b7C b7E
Squad WCC-4

From: New York
Squad C-1
Contact: SA [redacted]

Approved By: [redacted]

Drafted By: [redacted]

Case ID #: 196C-LA-227702 (Pending)

Title: UNSUBS;
dba AOL TIME WARNER;
BILL FRIEDKIN, BILL BLATTY-VICTIMS
MF; OO:LA

Synopsis: To report results of lead from LA to NY dated 05/30/2002.

Details: On June 19, 2002, SA [redacted] attempted to interview [redacted] at his residence, [redacted], New York, New York. [redacted] was not home and SA [redacted] left a business card with [redacted] doorman. b6 b7C

On June 20, 2002, SA [redacted] received a telephone call from [redacted] SA [redacted] attempted to schedule an interview with [redacted] and advised [redacted] of the nature and purpose of the interview. [redacted] refused to speak with SA [redacted] b6 b7C

On June 20, 2002, SA [redacted] received a telephone call from [redacted] who identified himself as [redacted] attorney. [redacted] further advised that he [redacted] was located in [redacted] attempted to schedule time for he and [redacted] to meet with SA [redacted] b6 b7C

On July 3, 2002, SA [redacted] advised A/SSA [redacted] of his contact with [redacted] A/SSA [redacted] advised SA [redacted] that LA would handle the matter given that [redacted] was now represented by [redacted] A/SSA [redacted] advised that no further action by NY would be necessary at this time. b6 b7C

UPLOADED
WITH/TEXT
WITH/OUT TEXT
BY
DATE

[redacted] b6 b7C

196C-LA-227702-9

LEAD (s):

Set Lead 1: (Adm)

LOS ANGELES

AT LOS ANGELES

Read and clear.

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FEDERAL BUREAU OF INVESTIGATION

Date of transcription 03/04/2002

[redacted] WARNER BROTHERS, 4000 Warner Boulevard, Burbank, California, telephone number [redacted] was interviewed at his place of employment and in the presence of his attorney [redacted] After being advised of the identities of the interviewing agents and the purpose of the interview, [redacted] provided the following information:

[redacted] of WARNER BROTHERS. [redacted] is a friend and former law partner of [redacted] have worked together for many years. [redacted] is very familiar with issues relating to WARNER BROTHERS and is directly involved in the civil lawsuit currently pending between WARNER BROTHERS and WILLIAM FRIEDKIN and WILLIAM PETER BLATTY. The lawsuit concerns a film named THE EXORCIST.

WARNER BROTHERS makes and distributes approximately thirty (30) films per year. WARNER BROTHERS produces many more television programs. The relationships that WARNER BROTHERS enters into for the purpose of producing these films and television programs are all dictated by contract. When dealing with artists, such as actors, writers and directors, WARNER BROTHERS typically uses a form contract as a starting point for its negotiations. WARNER BROTHERS then diverges from its form contract in order to make special provisions that reflect the importance of the artist with whom it is dealing. For instance, an actor of the caliber of [redacted] is able to command a contract that permits him to share in the gross revenues that flow to WARNER BROTHERS from a project, whereas a lesser artist may receive nothing more than a fixed salary. There are many different options that exist between these two examples.

There are two (2) general methods of payment in the film industry, fixed salary and contingent payments. The majority of people in the industry are paid on a fixed compensation basis, meaning that they are paid a flat salary in exchange for their services. Oftentimes, the payments are structured so that the individual receives 20% during pre-production, 60% during the actual production, and 20% at post-production. In other cases, particularly when dealing with established stars, WARNER BROTHERS

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will pay contingent fees, such as royalties or participation. In a participation agreement, an artist or employee receives a percentage of the revenues or profits generated by a project. Profit participation can be broken down further into "gross" profit participation and "net" profit participation. A gross profit participation deal enables the artist to share in a percentage of the pool of money that flows to WARNER BROTHERS, while a net profit agreement enables an individual to share in the percentage of profits, that is the amount of money left over after WARNER BROTHERS recoups its expenses. There are also a variety of different gross participation agreements, such as "gross less `x'" or gross less x',' `y,' `z,'" with the letters "x," "y," and "z" representing different cost that are to be deducted before gross revenues are calculated for purposes of profit-sharing.

Some years ago, ART BUCHWALD filed a lawsuit relating to the net profit participation agreement that he negotiated over a film that he wrote (COMING TO AMERICA.). BUCHWALD sued because he did not receive any participation revenue despite the fact that the movie was a certified hit that seemed to have made a substantial amount of money at the box office. BUCHWALD sued because he did not understand the full array of costs that the film company was permitted to recover before BUCHWALD was entitled to receive any participation revenue. [redacted] offered an example of a truck that WARNER BROTHERS uses for certain functions. In one instance, WARNER BROTHERS might rent the truck from a company such as HERTZ in which case the cost of that truck would represent an expense that should rightfully be deducted before calculation of BUCHWALD'S participation. What BUCHWALD did not understand was that there are times when WARNER BROTHERS will purchase its own truck and use that truck rather than a truck that it rents from HERTZ. In this situation, WARNER BROTHERS is still entitled to deduct the expense for that truck, even though the money still remains within the WARNER BROTHERS. There are many similar expenses that WARNER BROTHERS expenses in this way and these expenses are deducted from the total amount upon which profit participation is determined. b6 b7C

After the BUCHWALD lawsuit, WARNER BROTHERS changed the nomenclature for many of its contractual deals. Specifically, WARNER BROTHERS stopped using the term "net profit participation." WARNER BROTHERS made this change in order to highlight the existence of expenses similar to the truck example outlined above. WARNER BROTHERS's new term for these types of contracts is a "contingent participation" agreement.

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WARNER BROTHERS has had many similar disputes with FRIEDKIN and BLATTY over the contracts that they entered into relating to a film called "THE EXORCIST." FRIEDKIN and BLATTY filed their first lawsuit against WARNER BROTHERS in 1974. There have been other disputes since that time, and FRIEDKIN and BLATTY are now involved in another lawsuit relating to the same film. In 2000, WARNER BROTHERS released an updated version of the film. Although the updated film was billed as the "version that you've never seen," the original and the remake are substantially the same. The only differences are eleven (11) minutes of new footage and an some difference to the soundtrack.

The new lawsuit is inconsequential and [redacted] b6 b7C expressed surprise that the Federal Bureau of Investigation would take an interest in the issues that are being raised in the suit. All of the major issues relating to this film and the conflict between WARNER BROTHERS and FRIEDKIN/BLATTY were resolved in the earlier litigation and WARNER BROTHERS views this lawsuit as a "mop-up" of the remaining details.

The bulk of the current disagreement relates to different cost statements that were received by FRIEDKIN and BLATTY. FRIEDKIN and BLATTY contend that they should have received identical statements because the statements refer to the same film, THE EXORCIST. This is not correct. In fact, FRIEDKIN and BLATTY used to receive identical cost statements. This changed, however, when FRIEDKIN began to renegotiate his agreement and BLATTY did not. It was at this point that WARNER BROTHERS began to send different cost statements to FRIEDKIN and BLATTY. The differences in the two statements reflect the differences between the new agreement that was struck between WARNER BROTHERS and FRIEDKIN and the older agreement that remains in place between WARNER BROTHERS and BLATTY. [redacted] explained this to counsel for FRIEDKIN/BLATTY, but counsel does not seem to understand this point. b6 b7C

WARNER BROTHERS is willing to provide access to all documents that are necessary to satisfy interviewing agents that there is no wrongdoing on the part of WARNER BROTHERS. [redacted] instructed interviewing agents to contact him later in the day to set up a meeting with [redacted] is the WARNER BROTHERS [redacted] that form the basis for the complaints lodged by FRIEDKIN and BLATTY. [redacted] is the WARNER BROTHERS employee who is capable of sitting down with interviewing agents and walking them through the [redacted] that were prepared for FRIEDKIN and b6 b7C

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BLATTY. [redacted] will point out where the two sets of statements began to diverge and the reasons for those divergences. [redacted] cautioned that the statements do not change all at once at a particular date. Rather, there was a period of time over which the statements began to change gradually. These gradual changes reflect the lengthy negotiations between WARNER BROTHERS and [redacted] the attorney who represented FRIEDKIN in his renegotiation with WARNER BROTHERS. b6 b7C

FRIEDKIN/BLATTY also charge that WARNER BROTHERS further harmed them by entering into non-arm's length transactions with other, supposedly independent operating divisions of WARNER BROTHERS's parent company, AOL-TIME WARNER. Specifically, FRIEDKIN/BLATTY claim that WARNER BROTHERS sold at a discount or just plain gave away the television and cable rights for the film. FRIEDKIN and BLATTY claim that WARNER BROTHERS could have negotiated more lucrative contracts had it negotiated with companies that were not affiliated with AOL-TIME WARNER. [redacted] indicated that this claim is untrue. b6 b7C

The situation surrounding THE EXORCIST is unique because it concerns an existing film that was re-released in theaters with only limited differences. At the time that WARNER BROTHERS was releasing the new version in theaters, TURNER NETWORK TELEVISION ("TNT") possessed exclusive television rights to the older version of the film. TNT, like WARNER BROTHERS, is an operating division of AOL-TIME WARNER, WARNER BROTHERS approached TNT and requested that TNT not play the old film on television during the time period in which the new version was playing in theaters. TNT honored that request without compensation. WARNER BROTHERS later approached TNT and asked them to lengthen the holding period. TNT again honored the request without seeking compensation. Later, WARNER BROTHERS approached TNT and asked for an additional window during which time WARNER BROTHERS wanted to lease the film to CBS. At this point, TNT requested that it be given rights to the new version in exchange for allowing the film to be aired on CBS. WARNER BROTHERS granted the request.

WARNER BROTHERS then leased the rights to air the new version to CBS. CBS offered and paid $1.5 million to air the film on Halloween night. Ultimately, CBS did not even air the film. WARNER BROTHERS entered into the agreement with CBS only after all of the other outlets had turned the film down. HBO made an offer, but that was only for $1 million. During a deposition of FRIEDKIN in the civil case, FRIEDKIN said that he knows that WARNER BROTHERS

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could have sold the film for a higher price because FRIEDKIN had an encounter with [redacted] in which [redacted] said that his network had to have the new version. There is a big difference between saying and doing, however, and that WARNER BROTHERS never saw evidence that [redacted] network really wanted to buy the rights to the film. b6 b7C

[redacted] recognizes that FRIEDKIN and BLATTY may not think that $1.5 million is a sufficient price for an undeniably high-quality film like THE EXORCIST, but there are reasons for the relatively low price. First, THE EXORCIST is an old film that has been around since the 1970s. Second, THE EXORCIST is a violent and disturbing film that cannot be aired during daytime and early evening hours. In this sense, it is reasonable for television and cable outlets to place a higher value on a film that was not as highly-regarded by critics and moviegoers, because these other films can be played at during better time slots. b6 b7C

[redacted] is an employee of WARNER BROTHERS and [redacted] offered to make [redacted] available for a meeting with interviewing agents. [redacted] is no longer an employee of WARNER BROTHERS and [redacted] has no say over whether the FBI can meet with [redacted] did state, however, that there it would be a waste of time to interview [redacted] because [redacted] was only involved in the negotiations over the television rights and cannot provide any evidence relating to the conflict between WARNER BROTHERS and FRIEDKIN/BLATTY. [redacted] offered to obtain a written affidavit from [redacted] if that would be of use to interviewing agents. [redacted] also offered to get the affidavit sworn to by [redacted] b6 b7C

[redacted] expressed concern over the nature of the investigation that was being conducted by the FBI. [redacted] recognizes that there could be differences of opinion over some of the valuations and allocations relating to THE EXORCIST, but expressed his belief that there were legitimate business justifications for the valuations that were placed on the film by WARNER BROTHERS. For instance, when WARNER BROTHERS sells films to a television or cable outlet, WARNER BROTHERS bundles a large number of films and then places a value allocation on each film. [redacted] said it may be possible for someone to say that THE EXORCIST was worth $50,000 more than the allocation that was attached to the film by WARNER BROTHERS, but that WARNER BROTHERS has a formula that it uses to assess film valuations and that WARNER BROTHERS used the same formula for THE EXORCIST that it has used for all of its films over the years. [redacted] indicated that b6 b7C

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there was no fraud involved in the way that WARNER BROTHERS treated FRIEDKIN, BLATTY and their film.

At the conclusion of the interview, [redacted] asked a number of questions relating to the investigation. [redacted] reiterated WARNER BROTHERS's willing to make records and employees available to the FBI, but requested some assurance that the information provided by WARNER BROTHERS would be kept confidential. Interviewing agents stressed the confidential nature of their inquiries. Interviewing agents explained that information might become available to the public at a later date should a case be brought to trial or a Freedom Of Information Act request be filed. Interviewing agents also instructed that it might become necessary to provide some information to other witnesses in order to frame questions and gather additional information.

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[redacted] also wanted to know who it was that had the political clout to convince the FBI to investigate a little thing like this. [redacted] asked whether it was FRIEDKIN, BLATTY, [redacted] agents, or lawyers. Interviewing agents stated that the FBI receives complaints from many different sources and that it investigates based on the allegations, not on the individuals who make those allegations.

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Finally, [redacted] offered to place a gentleman's wager on the outcome of the investigation. Having supplied beverages to the interviewing agents earlier in the interview, [redacted] offered to "bet" a Diet Coke that the FBI would conclude that there is no criminal conduct involved in this matter.

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(Rev. 08-28-2000)

FEDERAL BUREAU OF INVESTIGATION

Precedence: ROUTINE **Date:** 06/27/2001

To: Los Angeles

From: Los Angeles
WCC4
Contact: SA [redacted], x3905 b6 b7C

Approved By: [redacted]

Drafted By: [redacted]

Case ID #: 196C-LA-227702 (Pending)

Title: UNSUBS;
WARNER BROS. INC;
WILLIAM PETER BLATTY - VICTIM;
WILLIAM FRIEDKIN - VICTIM;
Securities Fraud; MF; Conspiracy; Antitrust; ML;
OO-LA

Synopsis: Open and assign case to SA [redacted] co-case agent SA [redacted] b6 b7C

Details: Attached is the civil complaint filed on behalf of Blatty and Friedkin in the Superior Court of Los Angeles on May 22, 2001. The complaint alleges, among other things, that Warner Bros. has attempted in several ways to divert profits for the films "The Exorcist" and "The Exorcist - The Version You've Never Seen" from Blatty and Friedkin, who wrote and directed the films, and in doing so deprive them of the profit shares they were promised.

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O+A 7-6-01 [redacted] 6/27/01

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